

## Cryptocurrencies

### Ukraine steps up effort to regulate cryptocurrencies

Kiev says unchecked use by criminals and geopolitical enemies risks national security



Concern is growing among regulators and governments that cryptocurrencies are being used by organised groups for money laundering and other criminal activities

Roman Olearchyk in Kiev and Hannah Murphy in London JANUARY 15, 2018

Ukraine is intensifying the search for ways to regulate [cryptocurrencies](#) as concerns mount in Kiev that exploitation of the digital assets by criminals and geopolitical adversaries presents a growing national security risk.

Announcing plans to set up a working group to develop regulations late last week, Oleksandr Turchynov, the country's national security and defence council chief, warned the current legal vacuum "poses a threat to the economy and security of the state".

"Given the rapid development of cryptocurrencies in the world, this issue cannot be left out of the state's attention," he added.

Soaring cryptocurrency prices have made the market an increasingly lucrative target for cyber criminals. [Bitcoin](#), the most popular digital currency, has nearly tripled in value since September and is trading at about \$13,500.

There is growing concern among regulators and governments that cryptocurrencies are being used by organised groups for money laundering and other criminal activities.

Ukraine, which has been battling Russian-backed separatists in eastern regions since 2014, sees itself as

## **In contrast to bank robbers or those stealing purses, it's not clear what to charge [cryptocurrency criminals] with**

Ukrainian interior ministry official

particularly vulnerable. It has suffered several serious cyber attacks in recent years, including one that disabled its power grid in 2015 and last year's ransomware attack, which took down government and commercial websites.

The government has accused the Kremlin of waging cyber attacks against it and has also seen a spate of criminal activity linked to cryptocurrencies.

Two weeks ago an armed gang kidnapped [Pavel Lerner](#), a bitcoin businessman, in Kiev in a crime authorities have dubbed "bitcoin kidnapping and extortion". Mr Lerner was released after paying a ransom of more than \$2.5m in bitcoins, rather than the \$1m initially cited, according to a Ukrainian interior ministry official familiar with the police investigation.

Separately in December, Ukraine's state security service said it was investigating a Russian citizen based in the Odessa region who allegedly "organised a mechanism of money laundering with the use of cryptocurrency" in which the money was destined for Russia, occupied eastern regions and Crimea.

The person was suspected of robbing US citizens, among others, it said, and allegedly "created a system of illegal money conversion, in particular with the use of cryptocurrency . . . through specially produced web resources and offshore companies".

The suspect also collaborated with government officials and bankers from Russia to create a "system of money transmission under the blockchain technology", the agency alleged, citing evidence gathered during the investigation.

"The lack of external and internal control over the cryptocurrencies' turnover, and anonymity of payments, create prerequisites for their use in order to legalise criminal assets [and] to pay for prohibited goods, in particular, drugs and weapons," Ukrainian authorities said in a statement last Thursday.

Lack of regulation also meant cryptocurrencies were being used to "provide for financing of terrorism, in particular, in the occupied territories of Ukraine", it said.

Watchdogs across the world are looking at whether — and how — to regulate cryptocurrencies. South Korea plans to ban cryptocurrency trading, while China outlawed cryptocurrency exchanges last year. By contrast, Japan has regulated bitcoin as a means of payment.

Cryptocurrencies are not regulated by central banks but are held digitally via electronic identities that in many cases allow the owners to remain anonymous. For most cryptocurrencies,

transactions are logged on a public ledger.

Johannes Ullrich, a cyber-security expert at the US-based Sans Institute, said he had noted a “significant [global] increase in the theft of cryptocurrencies and the use of hacking techniques to steal them” over the past few months.

“With the surge in value in cryptocurrencies, they are no longer just used to pay for illegal services and goods but they are now also a major target of criminal endeavours,” he said.

The Ukrainian interior ministry official warned that while “the owners of big sums of bitcoins are all potential victims of cyber criminals”, prosecuting such cases when there was no clear bitcoin regulation posed a challenge.

“In contrast to bank robbers or those stealing purses, it’s not clear what to charge them with,” he added.

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